

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CHARTER TOWNSHIP OF LARKIN	County MIDLAND
Audit Date December 31, 2004	Opinion Date February 23, 2005	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

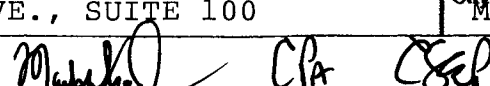
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C.			
Street Address 3915 EASTMAN AVE., SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature  CPA C&A			

CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended December 31, 2004

CHARTER TOWNSHIP OF LARKIN

BOARD OF TRUSTEES

Leonard Servinski	Supervisor
Kathy Moe	Treasurer
Lisa Johnson	Clerk
Scott Atton	Trustee
Karen Hitchcock	Trustee
James Snider	Trustee
Donna Harrington	Trustee

POPULATION-2000
4,514

STATE EQUALIZED VALUATION-2004
\$209,344,350

STATE TAXABLE VALUE-2004
\$190,506,386

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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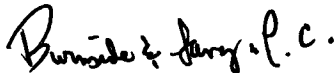
Members of The Township
Board of Trustees
Charter Township of Larkin
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of December 31, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 21, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
February 23, 2005

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004**

Using This Annual Report

This annual report of the Charter Township of Larkin (the "Township") consists of a series of financial statements. The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. The Governmental Fund financial statements of the Township tell how these services were financed in the short-term, as well as what remains for future spending. The Governmental Fund financial statements of the Township also report the Township's operations in more detail than the Government-Wide Statements of Net Assets and the Government-Wide Statements of Activities.

The Township As A Whole

The net assets of the Township declined \$205,309 or 3.6% from the prior year, going from \$5.675 million to \$5.469 million. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) for the Township as of December 31, 2004 verses December 31, 2003.

	2004	2003
Current Assets	\$ 1,831.6	\$ 1,869.5
Noncurrent Assets	8,652.4	9,013.0
Total Assets	10,484.0	10,882.5
Liabilities	(5,014.3)	(5,207.4)
Net Assets		
Invested in Capital Assets	1,671.7	1,569.5
Restricted	3,621.2	3,887.7
Unrestricted	176.8	217.9
Total Net Assets	\$ 5,469.7	\$ 5,675.1

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004**

The Township As A Whole (Continued)

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, decreased by \$41,144. The current level of unrestricted net assets for the Township stands at \$176,791, or about 18% of operating expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	2004	2003
Program Revenues		
Charges for services	\$ 298.0	\$ 292.4
Grants and contributions	6.9	41.1
General Revenues		
Property taxes	180.5	171.8
City of Midland agreement	24.2	18.7
State revenue sharing	295.3	310.9
Interest earnings	177.3	198.9
Miscellaneous	32.5	26.3
Total Revenues	<u>1,014.7</u>	<u>1,060.1</u>
Program Expenses		
General government	279.3	219.9
Public safety	104.7	126.3
Public works	487.1	471.2
Community development	29.3	11.1
Recreation and culture	69.6	64.4
Interest and fiscal charges	250.0	263.6
Total Expenses	<u>1,220.0</u>	<u>1,156.4</u>
Change in Net Assets	<u><u>\$ (205.3)</u></u>	<u><u>\$ (96.3)</u></u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2004**

The Township As A Whole (Continued)

The Township's net assets continue to remain healthy despite total revenues declining 4.3% and expenses increasing 5.5% over the previous year. As a result, net assets decreased by \$205,309 this year compared to \$96,328 last year.

General Fund Budgetary Highlights

Over the course of the year the Township Board amended the general fund budget to take into account events during the year. Total expenditures in the budget were increased \$74,575 to \$654,310. The Township Board failed to recognize the accounting effects of a special road project between the Township, Midland County Road Commission, adjoining Bay County Road Commission and one township. This project bettered the Township's road and with an agreement to pay over three years with the Midland County Road Commission and therefore overspent in the General Fund's Roads and Drains activity center. The Township Board also allowed for additional funds in the General Fund's Planning and Zoning activity center, to allow for the Township's master plan to be updated. Overall, the General Fund had a negative variance of \$8,410.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2004

ASSETS

Cash and cash equivalents	\$ 1,142,190
Taxes receivable - current	4,377
Due from tax fund	673,735
Other receivables	11,395
Assessments receivable - long-term	2,507,740
Capital assets:	
Land	77,600
Buildings and improvements, net	432,939
Township equipment, net	71,126
Fire department equipment, net	124,003
Fire department vehicles, net	436,074
Water system, net	5,002,908
Total capital assets	<u>6,144,650</u>
Total assets	<u>10,484,087</u>

LIABILITIES

Accounts payable	57,676
Accrued expenses	18,281
Deferred revenue	422,860
Due to other governmental units	40,027
Deposits and other liabilities	2,575
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	216,635
Capital lease	39,924
Portion due or payable after one year:	
Bonds and contracts payable	4,131,391
Capital lease	84,975
Total liabilities	<u>5,014,344</u>

NET ASSETS

Invested in capital assets, net of related debt	1,671,725
Restricted for:	
Debt service	3,621,227
Unrestricted	176,791
Total net assets	<u>\$ 5,469,743</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 13,364	\$ -	\$ -	\$ -	\$ (13,364)
Supervisor	13,091	-	-	-	(13,091)
Treasurer	32,015	5,995	-	-	(26,020)
Assessing	29,407	-	-	-	(29,407)
Clerk	26,243	-	-	-	(26,243)
Elections	7,036	-	-	-	(7,036)
Buildings and grounds	75,541	10,595	-	-	(64,946)
All other general government	82,693	4,304	1,000	-	(77,389)
Fire protection	82,980	-	-	4,900	(78,080)
Building inspection and regulation activities	21,710	20,316	-	-	(1,394)
Roads and drains	142,932	-	-	-	(142,932)
Water system	127,427	37,102	-	-	(90,325)
Sanitation, solid waste	216,707	219,703	-	-	2,996
Planning and zoning	29,299	-	-	-	(29,299)
Parks and recreation	15,217	-	975	-	(14,242)
Library	54,386	-	-	-	(54,386)
Interest and fiscal charges	249,998	-	-	-	(249,998)
Total governmental activities	\$ 1,220,046	\$ 298,015	\$ 1,975	\$ 4,900	(915,156)
General revenues:					
Property taxes, levied for general purposes					180,547
Property tax agreement with the City of Midland					24,157
State revenue sharing					295,277
Interest earnings					177,320
Miscellaneous					32,546
Total general revenues					709,847
Change in net assets					(205,309)
Net assets-beginning					5,675,052
Net assets-ending					\$ 5,469,743

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
GOVERNMENTAL FUND BALANCE SHEET
December 31, 2004

	<u>General Fund</u>	<u>Sanitation Fund</u>	<u>Water District 1 Debt Service Fund</u>	<u>Water District 2 Debt Service Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 247,555	\$ 84,853	\$ 138,797	\$ 670,985	\$ 1,142,190
Taxes receivable, net	4,377	-	-	-	4,377
Assessment receivable, net	-	-	190,490	2,317,250	2,507,740
Due from other township funds	171,965	208,710	21,279	271,781	673,735
Other receivables	300	-	3,698	7,397	11,395
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 424,197</u>	<u>\$ 293,563</u>	<u>\$ 354,264</u>	<u>\$ 3,267,413</u>	<u>\$ 4,339,437</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 30,751	\$ 26,475	\$ 50	\$ 400	\$ 57,676
Accrued expenses	18,281	-	-	-	18,281
Due to other governmental units	40,027	-	-	-	40,027
Deposits and other liabilities	2,575	-	-	-	2,575
Deferred revenue	190,660	232,200	-	-	422,860
Total liabilities	<u>282,294</u>	<u>258,675</u>	<u>50</u>	<u>400</u>	<u>541,419</u>
Fund balances:					
Unreserved	<u>141,903</u>	<u>34,888</u>	<u>354,214</u>	<u>3,267,013</u>	<u>3,798,018</u>
Total fund balances	<u>141,903</u>	<u>34,888</u>	<u>354,214</u>	<u>3,267,013</u>	<u>3,798,018</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 424,197</u>	<u>\$ 293,563</u>	<u>\$ 354,264</u>	<u>\$ 3,267,413</u>	<u>\$ 4,339,437</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2004

Total fund balances for governmental funds (Exhibit 4) \$ 3,798,018

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$ 77,600	
Buildings and improvements, net of \$142,628 accumulated depreciation	432,939	
Township equipment, net of \$69,259 accumulated depreciation	71,126	
Fire department equipment, net of \$90,241 accumulated depreciation	124,003	
Fire department vehicles, net of \$218,006 accumulated depreciation	436,074	
Water system, net of \$369,597 accumulated depreciation	<u>5,002,908</u>	
Total capital assets		6,144,650

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at December 31, 2004 are:

Midland County Water Supply System Bonds, Series 1997	\$ (380,000)	
Midland County Water Supply System Bonds, Series 1999	(3,775,000)	
Installment Purchase Contract, Township Office	(193,026)	
Capital Lease, Fire Truck	<u>(124,899)</u>	
		<u>(4,472,925)</u>

Total net assets of governmental activities (Exhibit 2) \$ 5,469,743

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended December 31, 2004

	General Fund	Sanitation Fund	Water District 1 Debt Service Fund	Water District 2 Debt Service Fund	Total
REVENUES					
Property taxes	\$ 210,699	\$ -	\$ -	\$ -	\$ 210,699
Licenses and permits	19,522	-	-	-	19,522
Federal aid	4,900	-	-	-	4,900
State aid	296,071	-	-	-	296,071
Charges for services	4,304	-	-	-	4,304
Interest and dividends	1,888	1,023	12,231	162,178	177,320
Rents and royalties	10,595	-	-	-	10,595
Special assessments	-	219,570	-	-	219,570
Donations and contributions	1,975	-	-	-	1,975
Miscellaneous	32,546	133	9,196	27,906	69,781
Total revenues	582,500	220,726	21,427	190,084	1,014,737
EXPENDITURES					
General government	254,710	-	-	-	254,710
Public safety	63,043	-	-	-	63,043
Public works	142,932	216,707	5,351	14,626	379,616
Community development	29,299	-	-	-	29,299
Recreation and culture	68,850	-	-	-	68,850
Capital outlay	21,896	-	-	-	21,896
Debt service	77,802	-	61,233	365,863	504,898
Total expenditures	658,532	216,707	66,584	380,489	1,322,312
Net change in fund balances	(76,032)	4,019	(45,157)	(190,405)	(307,575)
Fund balances-beginning	217,935	30,869	399,371	3,457,418	4,105,593
Fund balances-ending	\$ 141,903	\$ 34,888	\$ 354,214	\$ 3,267,013	\$ 3,798,018

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
December 31, 2004**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (307,575)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$174,529) exceeded capital outlay (\$21,896) in the current period. (152,633)

Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Midland County Water Supply System Bonds, Series 1997	40,000	
Midland County Water Supply System Bonds, Series 1999	155,000	
Installment Purchase Contract, Township Office	21,635	
Capital Lease, Fire Truck	38,264	
	254,899	254,899

Change in net assets of governmental activities (Exhibit 3) \$ (205,309)

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF LARKIN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
December 31, 2004

ASSETS

Cash and cash equivalents	\$ 1,785,456
Taxes receivable	2,247,975
Total assets	<u>4,033,431</u>

LIABILITIES

Due to other governmental units	3,359,696
Due to other funds	673,735
Total liabilities	<u>4,033,431</u>

NET ASSETS

<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected seven-member board. The accompanying financial statements present the Township operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Although the Township 2004 ad valorem tax is levied and collectible on December 1, 2004, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The 2003 taxable valuation of the Township totaled \$180.4 million, on which ad valorem taxes levied consisted of 1.000 mills for Township operating purposes. This amount is recognized in the General Fund as current tax revenue.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Sanitation Fund accounts for providing garbage and rubbish collection financed by an annual special assessment.

The Water District #1 and #2 Debt Service Funds account for the resources accumulated and payments made for principal and interest on general long-term debt associated with the construction of water systems within the Township.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Additionally, the government reports the following fund type:

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items—Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 40 years
Building improvements	25 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 25 years
Office equipment	5 to 25 years
Computer equipment	5 to 10 years

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund – Roads and drains	\$ 113,198	\$ 142,932

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 1,142,190	\$ 1,785,456	\$ 2,927,646

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificate of deposit)	<u>\$ 2,927,646</u>
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The bank balance of the government deposits is \$2,794,256, of which \$200,000 is covered by federal deposit insurance.

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 77,600	\$ -	\$ -	\$ 77,600
Capital Assets Being Depreciated				
Buildings and improvements	575,566	-	-	575,566
Township equipment	135,368	5,019	-	140,387
Fire department equipment	194,892	19,352	-	214,244
Fire department vehicles	654,080	-	-	654,080
Water system	5,372,504	-	-	5,372,504
Subtotal	6,932,410	24,371	-	6,956,781
Less Accumulated Depreciation for				
Buildings and improvements	128,143	14,484	-	142,627
Township equipment	56,977	12,284	-	69,261
Fire department equipment	76,092	14,149	-	90,241
Fire department vehicles	191,843	26,163	-	218,006
Water system	262,147	107,449	-	369,596
Subtotal	715,202	174,529	-	889,731
Net Capital Assets Being Depreciated	6,217,208	(150,158)	-	6,067,050
Governmental Activities Capital Assets—Net of Depreciation	\$ 6,294,808	\$ (150,158)	\$ -	\$ 6,144,650

Depreciation expense was charged to programs of the Township as follows:

General Government	\$ 24,680
Public Safety	41,647
Public Works	107,449
Recreation and Culture	753
	<u>\$ 174,529</u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amount of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 171,965	Tax Collection	\$ 673,735
Sanitation	208,710		
Water District #1	21,279		
Water District #2	271,781		
Total	<u>\$ 673,735</u>	Total	<u>\$ 673,735</u>

NOTE 6. LEASES

Capital Lease – The Township has entered into a lease agreement as lessee for financing the purchase of a fire vehicle. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended December 31,</u>	
2005	\$ 45,246
2006	45,246
2007	<u>45,246</u>
Total Minimum Lease Payments	135,738
Less: Amount Representing Interest	<u>10,839</u>
Net Present Value	<u>\$ 124,899</u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 7. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Balance 01-01-04</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12-31-04</u>
2001 Township Office, Installment Purchase Contract; due 6/1/2007	5.34%	\$ 214,660	\$ -	\$ 21,634	\$ 193,026
1999 Water Supply System Bonds; due 8/1/2016	4.0% to 7.0%	3,930,000	-	155,000	3,775,000
1997 Water Supply System Bonds; due 8/1/2016	4.0% to 5.25%	420,000	-	40,000	380,000
		<u>\$ 4,564,660</u>	<u>\$ -</u>	<u>\$ 216,634</u>	<u>\$ 4,348,026</u>

Scheduled principal maturities of long-term debt for years subsequent to December 31, 2004 are as follows:

<u>Year Ending December 31,</u>	
2005	\$ 216,635
2006	229,434
2007	357,532
2008	245,000
2009	255,000
Thereafter	<u>3,044,425</u>
	<u>\$ 4,348,026</u>

**CHARTER TOWNSHIP OF LARKIN
MIDLAND COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2004**

NOTE 8. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9. PENSION PLAN

The Township provides pension benefits to members of the Township Board of Trustees, constables, building inspector, fire chief and custodian through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Township ordinance 187, the Township contributes 8.5% of employee gross earnings and the employee contributes 8.5% of earnings.

In accordance with these requirements, the Township contributed \$9,464 during the current year and employees contributed \$9,464. The Township also incurred participant fees totaling \$2,844, which was charged to pension expenditures.

NOTE 10. URBAN COOPERATION ACT AGREEMENT

The Township has agreements with the City of Midland under the Urban Cooperation Act, which require these two units of government to share property taxes collected on real property annexed by the City of Midland and formerly within Larkin Township. Under the agreements, the City of Midland is required to pay Larkin Township a portion of ad valorem property taxes levied on the related property in amounts ranging from 1.0 to 2.0 mills of the state taxable valuations as of the date specified in the agreements and indexed by the rate of inflation for succeeding years. These agreements begin to expire on December 31, 2009. The Township received tax revenue totaling \$24,157 from these agreements during 2004.

CHARTER TOWNSHIP OF LARKIN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 203,000	\$ 203,000	\$ 210,699	\$ 7,699
Licenses and permits	25,000	25,000	19,522	(5,478)
Federal aid	-	-	4,900	4,900
State aid	317,575	317,575	296,071	(21,504)
Charges for services	4,613	4,613	4,304	(309)
Interest and dividends	3,500	3,500	1,888	(1,612)
Rents and royalties	12,000	12,000	10,595	(1,405)
Donations and contributions	-	-	1,975	1,975
Miscellaneous	21,000	21,000	32,546	11,546
Total revenues	586,688	586,688	582,500	(4,188)
EXPENDITURES				
General Government:				
Towship board	\$ 14,445	\$ 13,595	\$ 13,364	\$ 231
Supervisor	12,936	13,186	13,091	95
Treasurer	32,303	32,303	31,379	924
Assessing	28,136	29,469	29,407	62
Clerk	25,990	26,712	26,243	469
Elections	3,946	7,036	7,036	-
Buildings and grounds	62,319	73,947	70,193	3,754
All other general government	66,234	68,037	63,997	4,040
Public Safety:				
Fire protection	47,576	49,576	41,333	8,243
Building inspection and regulation activities	29,849	22,749	21,710	1,039
Public Works:				
Roads and drains	39,502	113,198	142,932	(29,734)
Community Development:				
Planning and zoning	41,214	34,364	29,299	5,065
Recreation and Culture:				
Parks and recreation	13,436	14,936	14,464	472
Library	55,000	55,000	54,386	614
Capital Outlay:				
General government	26,000	2,544	2,544	-
Fire protection	10,000	19,856	19,352	504
Debt Service:				
Principal payments	52,974	59,927	59,927	-
Interest payments	17,875	17,875	17,875	-
Total expenditures	579,735	654,310	658,532	(4,222)
Net change in fund balances	6,953	(67,622)	(76,032)	(8,410)
Fund balances-beginning	217,935	217,935	217,935	-
Fund balances-ending	\$ 224,888	\$ 150,313	\$ 141,903	\$ (8,410)

February 23, 2005

Members of the Township
Board of Trustees
Charter Township of Larkin
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Charter Township of Larkin, for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable condition. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

REPORTABLE CONDITIONS

Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township had incurred expenditures in excess of the amount appropriated in the General Fund.

We recommend the modified accrual basis of accounting be considered when adopting the budget. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the board minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

By following the above recommendations, the Township will be in compliance with P.A. 621 of 1978, Section 18(1), as amended, when adopting future budgets.

Accounting for Tax Collections

The Township purchased a computerized, accounting information system three years ago. The final piece of its implementation is the posting of tax receipts and disbursements on a current basis to the general ledger. Including this information will allow board members to receive a balance sheet report, which will reconcile to the Treasurer's cash balance reports.

OTHER MATTERS

Financial Oversight

The general limitations in any smaller organizations like the Charter Township of Larkin requires that Township Board members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Township performs these duties and our comment here is intended to emphasize the importance of the Township's oversight role.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2004, financial statements, and this report does not affect our report on those financial statements dated February 23, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Lang", is written over the signature line.

BURNSIDE & LANG, P.C.